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Export networking challenges and opportunities for manufacturing firms from developing countries

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Summary

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Introduction

Several theories explain the engagement of nations in international trade; the most frequently cited being the theory of comparative advantage. However, this theory, although important for economic policy purpose, does not explain why some individual firms are successful in exporting while others fail. In the last decades, however, many scholars have adopted a company perspective of international trade by attempting to investigate the forces inhibiting the firms to initiate, develop or sustain export operations. The focus of these studies is not on macroeconomic policy but on barriers, real and perceived, by the individual companies. Such findings constitute a source of valuable information for public policy makers in their attempt to design and implement optimal national export policies. Micro level studies are important for developing countries in particular because most of the policies in these countries do not stem from the firm level export problems.

Eritrea developed a good export capacity in the first half of the twenty-century, during the Italian colonisation. According to the records of the Ministry of Trade and Industry, Eritrea was exporting manufactured products such as textiles, footwear, as well as fish to the Middle East, Europe and Africa. Adequate communication facilities such as railway, air and road transport were available. Italian investors were the main players in the export business. With the coming of the Ethiopian administration in the 1980's and 1990's and particularly under the socialist government of Ethiopia, a new export approach prevailed. All exports were channelled and marketed by the parastatal, Ethiopia Import Export Corporation, (ETIMEX). Manufacturing firms limited their activities only to production. Furthermore, in fear of the expropriation policy of the socialist government directed at those firms that generate foreign currency, mainly through export, privately owned manufacturing firms were forced to focus on the domestic market. The centralised system of export policy and thirty years of war for independence alienated the footwear and textile-manufacturing firms in Eritrea from the international market and weakened the marketing knowledge and financial capacity of the entrepreneurs.

Although most of the export problems of the footwear and textile-manufacturing firms in Eritrea are similar to that of other developing countries, some of them are unique to Eritrea. Before the border war between Ethiopia and Eritrea erupted in 1998, the footwear and textile-manufacturing firms were selling about 70 percent of their produce to Ethiopia. Because of the war this market opportunity has been lost and the firms have to find another alternative market. Despite the fact that many of the footwear and textile-manufacturing firms in Eritrea have a long business experience only a few are successful in accessing new export markets.

Export transactions are often coordinated through three governance structures. These are Market, Network and Hierarchy (Thorelli, 1986; Thomson et al, 1991). In the international footwear and textile market to conduct a sound transaction, buyer and seller have to pass through certain stages. These are identifying the fashion trend, producing a sample design, making the sample and finally exhibiting the sample to see how customers react to it. It is only after this long process that a market demand is identified and the buyer put the order to the manufacturer. Each order is different and the footwear and textile produced is not

standardised. This makes continuous flow of information between manufacturers and buyers critical. To expedite this process history of past business relationships and trust are essential. When these factors are absent information exchange precedes real business transaction. Consequently, pure market and pure hierarchy transactions hardly exist in the footwear and textile import and export business. However, it is worthwhile to note that networks also have some characteristics of markets and hierarchies. While maintaining the benefits of hierarchy and market governance structures, networks also fail because of similar transaction hazards that lead to the failure of market and hierarchies (Park, 1996).

The upshot of the above argument is that the Eritrean manufacturers need buyers that are committed to work with them to produce a product suitable to the target export market and provide a reliable channel of distribution. Particularly the footwear and textile manufacturers in Eritrea need market information related to product quality, design, price and potential buyers. These factors are important to the manufacturers to evaluate their product standards and take the necessary corrective action to achieve the desired level.

Research questions

This thesis answers the main research question: *How can the footwear and textile-manufacturing firms in Eritrea enter into a vertical and horizontal business network relationships and increase their export capability?*

The argument behind the above central research question is the international footwear and textile market is full of network relationships. If the footwear and textile-manufacturing firms in Eritrea are going to participate in the international footwear and textile market they have to be part of it. The main research question has been divided into five research sub-questions.

- What are the export problems of manufacturing firms in developing countries?
- How are networks used to alleviate the export problems of manufacturing firms in developing countries?
- What are the specific export problems of the footwear and textile-manufacturing firms in Eritrea?
- What are the prevailing network structures and requirements of the Netherlands' and Ugandan footwear and textile export markets?
- How can the footwear and textile-manufacturing firms in Eritrea enter into a vertical and horizontal business network relationships and increase their export capability?

Literature review

In this thesis we reviewed the current state of conceptual knowledge on export marketing barriers. We compiled and synthesised the empirical results contained in the relevant studies of manufacturing firms in developing countries. We also reviewed the current state of the practical knowledge on measures undertaken by firms and governments in developing countries to encounter the export marketing problems. When there are transaction costs a simple market mechanism is not appropriate to facilitate exchange. This makes a different

transaction co-ordination mechanism necessary. The literature review showed that vertical and horizontal business network relationships could open new market opportunities for the footwear and textile manufacturers in Eritrea and improve value to the customer through reduced transaction costs and improved product quality. These are also the factors that influence the development of export capability and market representation of manufacturing firms in developing countries. Our literature review led us to the conclusion that four networking strategies are available for the footwear and textile manufacturers in Eritrea through which they can enter into the international footwear and textile market and improve their export capability. These are: flexible supply contracting, subcontracting, joint venture and export grouping networks (horizontal business networks).

To conceptualise the variables identified in the empirical literature we reviewed the literature on inter-organizational co-operation. We have reviewed the various themes and ideas developed within these perspectives. Accordingly, we understood that five concepts determine the choice of transaction governance form. These are *asset specificity*, *uncertainty*, *organisation capacity and room for resource mobilisation*, *volume and frequency of transaction*, and *Linkages*. Based on the literature review we developed a framework that depicts variables that are imperative to the emergence, development and achievement of the business network.

Research methodology and framework for analysis

In this thesis, the case study approach has been used to gather in-depth data about the footwear and textile-manufacturing firms in Eritrea and potential buyers in the Netherlands and Uganda. Also surveys have been used to collect background information about the footwear and textile-manufacturing firms. The data collected by the survey method has been useful in two ways. First, it helps the researcher to understand and describe the footwear and textile industry in Eritrea, and second, it offers general background information useful to select the right organisations for the case study.

The data analysis process in this thesis has gone through three major stages. In the first stage, we have described and analysed the Netherlands and Ugandan footwear and textile export markets. The personal interview has been tape recorded and transcribed as soon as the interview session is finished. We have analysed each response and established a chain of evidence to build our arguments. We build our conclusion by matching the evidence patterns in the different cases. The second stage of the data analysis is mainly based on the results of the survey. Forty-five export problems were presented to the managers and they were asked to indicate the importance. Similarly, respondents were asked to value the degree of difficulty to solve these export problems.

In stage three, we have drawn a cross case conclusion on the Market opportunities in the Netherlands and Ugandan footwear and textile markets (Figure 5.2). This analysis acknowledges the differences between the two markets. In view of this we have analysed five variables identified in our framework (Figure 5.1).

Conclusion

The studies in Netherlands and Ugandan footwear and textile export market have shown that no subcontracting and joint venture business opportunities were found. This is mainly because of three main factors. Firstly, there is no need for the importers in the Netherlands and Uganda to make risky investment on setting manufacturing facilities. There are manufacturers who are capable of producing a product according to the importer requirements. Then the point is how to get the reliable manufacturer who can accommodate the orders. Most of the importers prefer to remain as wholesalers or retailers rather than diversifying to production. Secondly, the unstable political situations in developing countries make investment more risky. Finally, the wholesalers and retailers need to be flexible. Consequently, the case studies have shown that at present flexible supply contracting is becoming popular in the footwear and textile business.

The findings show that only agents wholesalers and retailers are active in the Netherlands footwear and textile export market. The intermediaries in the Netherlands are well placed in the local target market, have considerable local market knowledge and crucial contacts with potential customers. Thus it is easier for the footwear and textile manufacturers in Eritrea to enter into the Netherlands footwear and textile export market through a vertical business network with wholesalers and retailers than bypassing them. However, to improve their product quality and expand their production capacity the Eritrean manufacturers need to establish a horizontal business network.

The high uncertainty in the Ugandan export market due to the lack of trust in the marketing channel, and inefficient contract enforcing institutions precludes the footwear and textile manufacturers in Eritrea from appointing agents in Uganda. Moreover, wholesalers and retailers in Uganda often travel to markets where they can find different varieties of footwear and textiles from which they can choose. They buy limited volume of footwear and textiles from each design. As a result direct presence in the Ugandan market can help the Eritrean footwear and textile manufacturers to enlarge their sales by collecting orders even from the immediate customers. However, to enter to the Ugandan footwear and textile export markets through the aforementioned strategy, the footwear and textile manufacturers in Eritrea need to establish horizontal business networks relationships among themselves. The horizontal business network relationships among the manufacturers will help them to mobilise the financial and human resources needed to establish a sales outlet in Uganda.

This thesis concludes establishing horizontal business network with fellow manufacturers and vertical business network with cotton and leather suppliers, and footwear and textile buyers in the Netherlands and Uganda are preconditions for the Eritrean manufacturers to penetrate to the international market. Moreover horizontal business sub-networks are necessary to improving product quality, expanding production capacity, and mobilizing resources. In view of this conclusion two types of horizontal business network organisations and three types of vertical business network relationships have been recommended to co-ordinate the entry to export markets. A distinction between a network organisation and a network relationship has been made. Organisations have their own administration and continuity is a major goal, while relationships are order based and have a relatively flexible status.